Retirement Income
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Inflation-Indexed and Level Payout Funds from Barclays Bank

By Editor Test *Wed, Aug 4, 2010*

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Barclays Bank Plc has announced two new payout product that allows pre-retirees or retirees to buy monthly income for as long as 30 years—a product that appears to compete alongside PIMCO's TIPS-based 10-year and 20-year payout funds.

The registered securities are called Barclays Inflation-Indexed Level-Pay Notes, or IILP Notes, and Level-Pay Notes. The company filed a disclosure and marketing materials with the Securities and Exchange Commission on July 20, and a press release was issued July 28.

Income product aficionados have taken notice.

"It's marketed as a gap product, such as between early retirement and pension benefits or to bridge until longevity insurance kicks in," said Tamiko Toland, an annuity industry analyst at Strategic Insight, Inc.

"The inflation-adjusted income can adjust down, of course, and these things are not especially liquid, so they really don't recommend using them unless you are able to or plan to hold them until maturity."

The notes come in maturities of 15, 20, 25 and 30 years, according to Barclays. The initial principal payment for a 15-year note paying a non-inflation indexed $100 per month would likely be $12,600 to $13,600, with an effective interest rate of 3.59% to 5.05%, according to product literature. The exact price and and rate of return would be determined at the time of sale, depending on market conditions.

The purchase payment for a 20-year inflation-indexed note would be $17,400 to $19,900 per initial $100 per month, with an applied interest rate of 1.93% to 3.40%. In other words, an inflation-adjusted income with a base of $1,000 per month from September 1, 2010 to September 1, 2030 would cost $174,000 to $199,000.

By contrast, a 20-year, period certain, inflation-indexed immediate income annuity paying an initial $1,000 per month could cost almost $230,000, according to the Vanguard Lifetime Income Program calculator. A non-indexed 20-year income annuity paying a level $1,000 per month could cost as little as $161, 290, according to a recent quote from immediateannuities.com.

The first notes will be offered August 23, a spokesperson for Barclays Bank said. The product will be marketed mainly through fee-based investment advisors and that "any underwriting discount for brokers would be disclosed in the offering documents."

Minimium investment amounts were not made available, nor was it clear what flexibility there would be in the lengths of the payout periods. The hypothetical examples used in the marketing materials mentioned

15-year and 30-year periods.

According to Barclays' website, the notes "distribute monthly payments that consist of both inflation-adjusted interest and a partial return of inflation-adjusted principal. IILP Notes may be used as an effective cash flow management tool and as part of an investment or retirement portfolio."

Neither the income level nor the principal is guaranteed. The notes themselves are described as senior, unsecured debts of Barclays Bank Plc, and payments "are subject to the credit risk of Barclays Bank Plc and not, directly or indirectly an obligation of any third-party." Barclays Bank is rated AA- by Standard & Poor's and Fitch and Aa3 by Moody's.

The notes are not highly liquid either. According to Barclays, "The Notes will not be listed on any securities exchange. Barclays Capital Inc. and other affiliates of Barclays Bank PLC intend to make a secondary market for the Notes but are not required to do so, and may discontinue any such secondary market making at any time, without notice.

"Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Notes easily. Because other dealers are not likely to make a secondary market for the Notes, the price at which you may be able to trade your Notes is likely to depend on the price, if any, at which Barclays Capital Inc. and other affiliates of Barclays Bank PLC are willing to buy the Notes."

The IILP Notes marketing literature offers three hypothetical examples of how the product might be used. For instance:

- Peter Hu retires at age 50, and needs $3,000 a month to cover rent, utilities, groceries (all subject to increases) until his company pension and planned 401(k) withdrawals begin at age 65. To bridge the interim period, he buys 30 units (one unit = $100 a month) of a 15-year Barclays IILP Note, which generates an inflation-adjusted income of $3000 per month.
- Mary Thomas retires at 60 and withdraws a lump sum from her 401(k). She uses part of her lump sum to buy 35 units of a 30-year IILP Note, which pays her an inflation-adjusted $3,500 a month. She uses the rest to cover discretionary expenses and to purchase longevity insurance to provide income if she lives past age 90.
- George Parker, 70, is retirement. His budget of $5,000 per month comes from SS, $1,000, and savings, $4,000. "He is comfortable taking risk to try to grow the money that he isn't planning to spend until after he is 85. He buys 40 units of a 15-year IILP note, generating $4000 inflation-adjusted dollars.